

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2003-251-G - ORDER NO. 2004-501
OCTOBER 15, 2004

IN RE:	Application of Piedmont Natural Gas)	ORDER APPROVING
	Company for Approval of Modified Demand)	MODIFIED DEMAND
	Cost Allocation Factor.)	COST ALLOCATION
)	FACTOR

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Amended Petition of Piedmont Natural Gas Company, Inc. (“Piedmont” or “Company”) requesting approval of a prospective modification of the demand gas cost allocation factor applicable to Piedmont’s operations in South Carolina.

Following the filing of the Amended Petition, the Commission’s Executive Director instructed Piedmont to publish a prepared Notice of Filing in newspapers of general circulation in the areas affected by the Amended Petition. The purpose of the Notice of Filing was to advise interested persons of the filing of the Amended Petition and of the manner and time in which to file pleadings for intervention in the proceedings. A Petition to Intervene was filed by the Consumer Advocate for the State of South Carolina (“Consumer Advocate”).

A hearing on Piedmont’s Amended Petition was held on January 22, 2004, in the Commission’s hearing room located at 101 Executive Center Drive, Columbia, South Carolina. The Honorable Mignon Clyburn, Chairman presided. Piedmont was represented by James H. Jeffries, IV, Esquire, and Kerry McTigue, Esquire. The Consumer Advocate

was represented by Hana Pokorna-Williamson, Esquire. The Commission Staff was represented by F. David Butler, General Counsel. During the hearing, Piedmont presented David R. Carpenter, Piedmont's Director of Rates, to testify regarding Piedmont's request. Brent L. Sires, Chief of Gas in the Commission's Utilities Department, testified on behalf of the Commission Staff.

Based upon the evidence of record consisting of the Amended Petition, the testimony of the witnesses, and three hearing exhibits, the Commission makes the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

1. Piedmont is a public utility under the laws of the State of South Carolina, and its public utility operations in South Carolina are subject to the jurisdiction of the Commission. Piedmont is incorporated under the laws of the State of North Carolina and is duly authorized by its Articles of Incorporation to engage in the business of transporting, distributing, and selling natural gas. Piedmont is engaged in conducting its business operations in the states of South Carolina, North Carolina, and Tennessee.

2. In Order No. 2002-761, Docket No. 2002-63-G (November 1, 2002), the Commission adopted a revised methodology for calculating the demand cost of gas allocation factor applicable to Piedmont's operations within the State of South Carolina. This revised methodology changed the mechanism utilized to allocate demand gas costs to South Carolina to a "design day" basis. Under this methodology, demand costs are split between North Carolina and South Carolina on the basis of the relative demand between the two states on a design day basis.

3. The demand gas cost allocation factor that resulted from the application of this revised methodology to Piedmont's test period demand gas costs in Docket No. 2002-63-G, as approved by the Commission, was 22.3%. When this factor was applied to Piedmont's test period demand gas costs in the rate case, the result was a demand gas cost allocation to South Carolina of \$19,498,597.

4. The purpose of the demand cost allocation factor is to fairly allocate the aggregate demand gas costs incurred by Piedmont to serve its South Carolina and North Carolina customers between the two states. As stated above, Piedmont's current demand cost allocation factor applicable to Piedmont's South Carolina operations is 22.3%. This means that 22.3% of the total pipeline, commodity, and storage demand costs incurred by Piedmont to serve its South and North Carolina systems are allocated to South Carolina for collection from South Carolina ratepayers.

5. The purpose of Piedmont's request in the Amended Petition is to update the current demand cost allocation factor applicable to Piedmont's South Carolina operations to reflect Piedmont's acquisition of North Carolina Natural Gas Corporation ("NCNG")¹.

6. On September 31, 2003, Piedmont closed its acquisition of and merger with NCNG, a North Carolina local distribution company providing natural gas sales and transportation service to approximately 176,000 customers in the eastern part of North Carolina. When this transaction closed, Piedmont succeeded to the rights and obligations

¹ On cross-examination, the Consumer Advocate questioned Piedmont witness Carpenter about what was included in the merger with NCNG. The questions from the Consumer Advocate clarified that the NCNG merger also included Piedmont's acquisition of 50% interest in Eastern North Carolina Natural Gas Company. Therefore, references in this order which refer to Piedmont's acquisition of NCNG also include Piedmont's acquisition of 50% interest in Eastern North Carolina Natural Gas Company.

of NCNG. These rights and obligations include those contained in NCNG's various gas supply and transportation contracts, including the obligation pay demand charges associated with those contracts, as well as the obligation to serve NCNG's end user customers in North Carolina.

7. As a result of the merger with NCNG, it is necessary to change the South Carolina demand cost allocation factor because the basic facts underlying the calculation of the existing demand cost allocation factors for both South Carolina and North Carolina have changed in several respects. First, the total pot of demand costs now incurred to provide service to Piedmont's South Carolina and North Carolina customers has increased. Second, by virtue of the fact that this increase resulted solely from the addition of a substantial number of new customers in North Carolina, rather than a proportional increase in both states, the percentage allocation formula adopted in Piedmont's last general rate case is no longer accurate.

8. Piedmont proposes to treat the new NCNG capacity in a manner similar to its existing capacity from both an operational and accounting point of view. Piedmont will fold the new NCNG capacity into its existing commodity and capacity contract portfolio and will continue to manage that portfolio, in the most efficient and economic manner possible, to provide service to all its South and North Carolina customers.

9. Piedmont does not propose any alteration to its approach to managing its natural gas commodity and capacity assets as a result of the acquisition of NCNG. Piedmont intends to continue to operate its systems and its gas supply and capacity contracts just as it always has. The only difference is that Piedmont will have additional

supply and capacity assets available to provide service to its customers throughout the Carolinas and will assume the concurrent service obligations to NCNG customers.

10. Piedmont proposes to allocate 100% of the demand costs attributable to NCNG to North Carolina and to recalculate the respective South Carolina and North Carolina allocation factors on that basis. Piedmont proposes this approach to ensure that no NCNG demand costs are inadvertently shifted to South Carolina customers through the reallocation process.

11. In making the recalculation of the demand costs, Piedmont takes its aggregate demand costs for South Carolina and North Carolina attributable to Piedmont's legacy systems (excluding NCNG) as of June, 2003, removes certain costs (NUI and Cardinal) that are solely attributable to North Carolina, and then splits the remaining balance based on the current Commission-approved demand cost allocation factors applicable, which are 22.3% to South Carolina and 77.7% to North Carolina. The calculation results in a total demand cost allocation to South Carolina of \$18,791,923. To reach the revised demand allocation factor, the calculation continues by adding in the NCNG demand costs, allocating those costs entirely to North Carolina and recalculating demand allocation factors accordingly. This second part of the calculation results in a revised demand allocation factor for South Carolina of 15.81%.

12. The recalculation of the demand allocation factor will not change the amount of demand costs allocated to and payable by Piedmont's South Carolina customers. Piedmont's South Carolina customers will be allocated exactly the same amount of costs under the revised allocation factor applied to Piedmont's post-merger

South and North Carolina demand costs as they would have been allocated under the existing approved factors applied to Piedmont's pre-merger demand costs.

13. Piedmont's South Carolina customers should experience no negative economic impact because the level of demand costs allocated to South Carolina in Piedmont's last general rate case will stay the same. South Carolina customers will receive the benefit of additional operational flexibility provided by NCNG's commodity, storage, and transportation contracts and should receive an additional economic benefit from allocations of net margin derived from any releases of NCNG capacity.

14. Piedmont's method of recalculating the demand cost allocation factors for South Carolina and North Carolina customers is fair and reasonable because the allocation factors for South Carolina and North Carolina are recalculated on the basis of the respective demand cost allocation factors approved by the Commission and the North Carolina Utilities Commission and currently in effect. Further, under Piedmont's proposed method, all additional costs associated with the acquisition of NCNG are assigned to North Carolina. Thus, the revised allocation factor for South Carolina is a continuation of the existing allocation factor approved by this Commission in Piedmont's last rate case. Under the revised allocation factor, South Carolina ratepayers will pay the same amount of demand costs as they would have if the NCNG merger had not occurred.

15. Order No. 2003-588 (issued October 1, 2003) entered by the Commission in the instant docket allowed Piedmont to account for its gas costs on an interim basis consistent with its request in this docket. The effective date of Order No. 2003-588 was

October 1, 2003. Therefore, it is appropriate that Piedmont apply its final revised South Carolina demand allocation factor of 15.81% effective October 1, 2003.

CONCLUSIONS OF LAW

1. Based upon the Findings of Fact as stated above, the Commission concludes that Piedmont's Amended Petition for a modified demand cost allocation factor should be approved.

2. The Commission concludes that the methodology proposed by Piedmont for recalculation of the demand cost allocation factor is fair and reasonable because the allocation factors for South Carolina and North Carolina are recalculated on the basis of the respective demand cost allocation factors approved by the Commission and the North Carolina Utilities Commission and currently in effect. Under Piedmont's proposed method, the additional costs associated with the acquisition of NCNG are assigned to North Carolina. Thus, the revised allocation factor for South Carolina is a continuation of the existing allocation factor approved by this Commission in Piedmont's last rate case, and under the revised allocation factor, South Carolina ratepayers will pay the same amount of demand costs as they would have if the NCNG merger had not occurred.

3. The Commission concludes that no negative economic impact should be experienced by Piedmont's South Carolina customers. Under the recalculated demand cost allocation factor, the level of demand costs allocated to South Carolina in Piedmont's last general rate case will stay the same. Further, the amount of demand costs allocated to and payable by Piedmont's South Carolina customers will not change, and Piedmont's South Carolina customers will be allocated exactly the same amount of costs

under the revised allocation factor applied to Piedmont's post-merger South and North Carolina demand costs as they would have been allocated under the existing approved factors applied to Piedmont's pre-merger demand costs. In fact, South Carolina customers will receive the benefit of additional operational flexibility provided by NCNG's commodity, storage, and transportation contracts and should receive an additional economic benefit from allocations of net margin derived from any releases of NCNG capacity.

4. While the Commission concludes that the proposed modified demand cost allocation factor should be approved, the Commission further finds and concludes that this proceeding shall have no ratemaking impact on South Carolina rates and will not prejudice any party from addressing matters arising from the acquisition of NCNG² in any future proceeding, including but not limited to ratemaking proceedings.

IT IS THEREFORE ORDERED, ADJUDGED, AND DECREED THAT:

1. Piedmont's demand cost allocation factor applicable to Piedmont's operations in South Carolina is changed from 22.3% to 15.81%.

2. Piedmont's recalculated demand cost allocation factor is based upon total Company demand costs, including the costs associated with the acquisition of NCNG³.

3. The herein approved final revised demand cost allocation factor of 15.81% shall have an effective date of October 1, 2003, which was the effective date of Order No.

² The acquisition of NCNG also includes the acquisition of 50% of Eastern North Carolina Natural Gas Company, Inc.

³ The acquisition of NCNG also includes Piedmont's acquisition of 50% of Eastern North Carolina Natural Gas Company, Inc.

2003-588 allowing Piedmont to account for its gas costs on an interim basis consistent with Piedmont's request in this docket.

4. The Commission's decision herein to approve the revised demand allocation factor of 15.81% shall have no ratemaking impact on South Carolina rates and will not prejudice any party from addressing matters arising from the acquisition of NCNG in any future proceeding, including but not limited to ratemaking proceedings.

5. Piedmont shall file revised tariff pages reflecting the Commission's decision in this Order within ten days of receipt of this Order.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

/s/
Randy Mitchell, Chairman

ATTEST:

/s/
G. O'Neal Hamilton, Vice Chairman

(SEAL)